Office of the Legislative Auditor

State of Montana

Report to the Legislature

April 1992

Financial-Compliance Audit

For the Two Fiscal Years Ended June 30, 1991

Board of Regents and Commissioner of Higher Education

This report contains five recommendations concerning:

- Complying with federal regulations governing:

  --Matching requirements.
  --Subrecipient monitoring.
  --Allowability of expenditures.

- Reverting $24,442 of excess university system authority to the General Fund.

Direct comments/inquiries to:
Office of the Legislative Auditor
Room 135, State Capitol
Helena, Montana 59620

91-20

FINANCIAL-COMPLIANCE AUDITS

Financial-compliance audits are conducted by the Office of the Legislative Auditor to determine if an agency's financial operations are properly conducted, the financial reports are presented fairly, and the agency has complied with applicable laws and regulations which could have a significant financial impact. In performing the audit work, the audit staff uses standards set forth by the American Institute of Certified Public Accountants and the United States General Accounting Office. Financial-compliance audit staff members hold degrees with an emphasis in accounting. Most staff members hold Certified Public Accountant (CPA) certificates.

The Single Audit Act of 1984 and OMB Circular A-128 require the auditor to issue certain financial, internal control, and compliance reports regarding the state's federal financial assistance programs, including all findings of noncompliance and questioned costs. This individual agency audit report is not intended to comply with the Single Audit Act of 1984 or OMB Circular A-128 and is therefore not intended for distribution to federal grantor agencies. The Office of the Legislative Auditor issues a statewide biennial Single Audit Report which complies with the reporting requirements listed above. The Single Audit Report for the two fiscal years ended June 30, 1989 has been issued. Copies of the Single Audit Report can be obtained by contacting:

Office of the Legislative Auditor
Room 135, State Capitol
Helena, MT 59620

STATE OF MONTANA

Office of the Legislative Auditor

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Operations and EDP Audit
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Financial-Compliance Audit
JIM PELLEGRINI
Performance Audit

April 1992

The Legislative Audit Committee
of the Montana State Legislature:

This is our financial-compliance audit report on the Board of Regents and Commissioner of Higher Education for the two fiscal years ended June 30, 1991.

Included in this report are five recommendations. Four recommendations address compliance with federal regulations governing matching requirements, subrecipient monitoring, and allowability of expenditures charged to federal funds. The fifth recommendation concerns reversion of excess appropriation authority to the General Fund. The written response to the audit recommendations is included at the end of the audit report.

We thank the commissioner and his staff for their assistance and cooperation throughout the audit.

Respectfully submitted,

Scott A. Seacat

Scott A. Seacat
Legislative Auditor

Office of the Legislative Auditor

Financial-Compliance Audit
For the Two Fiscal Years Ended June 30, 1991

Board of Regents and Commissioner of Higher Education

Members of the audit staff involved in this audit were Pearl M. Allen, Frieda M. Houser, Tori Hunthausen, Maureen G. McHugh, and Cindy D. Susott.

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Board of Regents of Higher Education

		Term Expires
Stan Stephens, Governor*		
Nancy Keenan, Superintendent of Public Instruction*		
William L. Mathers, Chairman	Miles City	1994
Thomas F. Topel	Billings	1993
Cordell Johnson	Helena	1996
Kermit R. Schwanke	Missoula	1997
Paul F. Boylan	Bozeman	1998
Jim Kaze	Havre	1999
Kathey S. Rebish, Student Regent	Missoula	1992

*Ex officio member

Administrative Officials

Dr. John M. Hutchinson	Commissioner of Higher Education
Rod Sundsted	Acting Deputy Commissioner for Management and Fiscal Affairs after December 21, 1991
John H. Noble, Jr.	Deputy Commissioner for Management and Fiscal Affairs through December 21, 1991
Laurie O. Neils	Director of Budget and Accounting

This listing below serves as a means of summarizing the recommendations contained in the report, the agency's response thereto, and a reference to the supporting comments.

Introduction

We performed a financial-compliance audit of the Board of Regents (board) and Commissioner of Higher Education (CHE) for the two fiscal years ended June 30, 1991. The objectives of our audit were to:

1. Determine compliance with applicable state and federal laws and regulations.
2. Make recommendations for improvement in the agency's management and internal controls.
3. Determine if the agency's financial schedules are fairly presented for the two fiscal years ended June 30, 1991.
4. Determine the implementation status of prior audit recommendations.

We coordinated our financial-compliance audit work with a performance audit of the Montana Guaranteed Student Loan Program (92P-36). Issues identified in that audit were considered in the scope of our audit work and are addressed in the performance audit report.

In accordance with section 5-13-307, MCA, we analyzed and disclosed the cost, if significant, of implementing the recommendations made in this report. Other areas of concern deemed not to have significant effect on the successful operations of the agency are not specifically included in the report, but have been discussed with management.

Background

Board of Regents of Higher Education

Article X of the Montana Constitution established the Board of Regents to govern and control the Montana University System. The board is also vested with administrative and supervisory control of the vocational-technical centers and general supervision of community colleges. The board consists of seven members appointed by the Governor and confirmed by the

Senate. The Governor and Superintendent of Public Instruction are ex officio members of the board.

Commissioner of Higher Education

Article X of the Montana Constitution requires the board to appoint a Commissioner of Higher Education. The board prescribes the term and duties of the commissioner. The commissioner is responsible for overall supervision and coordination of units of the university system. This includes academic planning and curriculum review, budgetary planning and control, legal services, and labor negotiation policies and procedures. CHE was authorized 60 full-time equivalent employees (FTE) for fiscal years 1989-90 and 1990-91. CHE employed 15.5 General Fund FTE to carry out its administrative responsibilities.

The Commissioner also administers other programs related to student assistance, employee benefits, and the oversight of federally funded programs. Programs included in the student assistance category are the State Student Incentive Grant (both the state and federally funded portions); the Western Interstate Commission for Higher Education (WICHE); the Washington, Alaska, Montana, Idaho (WAMI) cooperative medical program; the Perkins Loan state matching funds; the Paul Douglas Federal Teachers Scholarship; State Work Study; the Supplemental Educational Opportunity Grant state match; and the Eisenhower Math and Science Grant. No FTE employees are funded by these student assistance programs. The Guaranteed Student Loan Program employed 33 FTE to assist borrowers, lenders, and educational institutions with the distribution and servicing of loans to low income students. The University System's Group Insurance Program provides faculty and staff with group benefits and a wellness program. 2.5 FTE are employed through this program. Finally, the federal programs administered by the Commissioner of Higher Education include the Educational Talent Search Program which employed 6 FTE and the Carl Perkins Vocational Education Grant Program which funded 3 FTE with federal funds.

The WICHE program provides education opportunities for Montana students in the fields of medicine, dentistry, veterinary medicine, optometry, public health, occupational therapy and

podiatry. CHE spent $1,794,932 and $1,814,346 to allow 119 and 123 students to participate in the WICHE program during fiscal years 1989-90 and 1990-91, respectively. The WAMI program is a cooperative agreement for medical education. Eighty students participated in the WAMI program at a cost of $1,966,854 and $2,040,209 for fiscal years 1989-90 and 1990-91, respectively. The expenditures for both programs are part of the agency's Student Assistance Program.

The Montana Guaranteed Student Loan Program, established by the 1979 Montana Legislature, allows eligible students to receive guaranteed loans from lending institutions for post-secondary education. The GSLP initially contracted with United Student Aid Funds, Inc. to process and service loans. In 1988, Montana began assuming the administrative duties associated with the loan guarantee process. During 1990, the GSLP assumed complete administration but continues to contract with United Student Aid Funds, Inc. for computer support services.

We issued separate, unqualified opinions on the GSLP financial statements for fiscal years 1989-90 and 1990-91. These statements were prepared to assist the Montana Higher Education Student Assistance Corporation (MHESAC) in selling tax-exempt bonds. The MHESAC uses the bond proceeds to purchase loans from lending institutions. When MHESAC purchases loans, lending institutions are able to make new loans to incoming students.

Prior Audit Recommendations

Prior Audit Recommendations

Our office performed the Board of Regents and Commissioner of Higher Education audit for the two fiscal years ended June 30, 1989. The prior report contained two recommendations which are still applicable to the agency. The agency implemented the recommendation regarding nonresident fee waivers and partially implemented the recommendation related to subrecipient monitoring which is addressed beginning on page 7 of this report.

Findings and Recommendations

Federal Compliance

We tested compliance with requirements applicable to the federal assistance programs the agency administers. We designed our procedures to satisfy the requirements of the Single Audit Act of 1984 and Office of Management and Budget (OMB) Circular A-128 as applied to the state of Montana's reporting entity. To comply with federal audit requirements, our report discloses all federal compliance issues identified during the audit. These federal compliance issues are discussed below. Issues which address specific federal assistance programs also disclose the Catalog of Federal Domestic Assistance (CFDA) number associated with the program.

Carl D. Perkins Vocational Education Program

The Board of Regents of Higher Education is the sole state recipient of funds from the Carl D. Perkins Federal Vocational Act (Vocational Education - Basic Grants to States, CFDA #84.048; Consumer and Homemaking Education, CFDA #84.049; and Community Based Organizations, CFDA #84.174) under section 20-16-102, MCA. On behalf of the board, CHE administers post-secondary level grants and contracts with the Office of Public Instruction (OPI) to administer primary and secondary school grants. Perkins grants are used to promote vocational-technical education in the state. CHE expended $4,493,081 and $4,377,093 for the Perkins Programs in fiscal years 1989-90 and 1990-91, respectively. These amounts include transfers to OPI of $2,597,502 and $2,408,550 in fiscal years 1989-90 and 1990-91, respectively.

Federal regulations require CHE to prepare a state plan which outlines the procedures established to administer the Perkins grants and provides assurance that program activities will comply with appropriate federal and state laws and policies. We tested CHE's compliance with requirements applicable to the Perkins grants. The following three sections discuss the issues we identified during testing. We also identified unallowable travel expenditures charged to the Perkins grants, as discussed on page 11.

Matching Funds

OMB Circulars A-102 and A-110 establish criteria for the allowability of cash and in-kind contributions made to satisfy cost sharing and matching requirements of federal grants. Generally, these circulars require that cost sharing or matching consist of project costs not borne by the federal government that are "necessary and reasonable for proper and efficient accomplishment of project objectives." Federal regulations specific to the Perkins program (34 CFR 401.94) limit the federal share of most Perkins projects, services and activities to 50 percent. We interpret these regulations to require that match be used to accomplish Perkins program objectives. We also interpret these regulations to require CHE to use expenditures identified in the state plan for improvement, innovation, or expansion of vocational-education programs as match under Part B.

During fiscal years 1989-90 and 1990-91, CHE reimbursed school districts for bond payments on vocational-technical center buildings totaling $730,905 and $717,068, respectively. CHE reported $432,369 and $254,200, respectively, of these reimbursements as state match for several Perkins grant projects under Parts A and B of the program (CFDA #84.048). For example, CHE used $78,503 of the bond payments as match for Perkins projects on vocational education research, curriculum development, and personnel development at Northern Montana College during fiscal years 1989-90 and 1990-91.

CHE personnel stated they believe the bond payments are allowable match under 34 CFR 401.60(b)(8) which says the state may use funds to accomplish the purposes of the grant by supporting ". . . construction of area vocational education school facilities in areas having a demonstrated need for those facilities. . ." They also believe the bond payments are allowable match based on discussions with federal program officials and questions and answers regarding 34 CFR 401.94 published in the Federal Register on August 16, 1985. The answers state the match requirement does not apply on an activity-by-activity basis, but does apply on a program basis or to each allotted portion of the grant (such as the programs for disadvantaged or handicapped persons, or the allotment for administration). The answers applicable to Part B also refer to 34 CFR 401.59, which states the

funds shall be used to meet the needs identified in the state plan for improvement, innovation, or expansion of vocational education programs.

Based on our interpretation of the federal requirements and state plan applicable to the Perkins grant, as well as discussions with federal audit officials, it is not clear whether all the bond payments are allowable match. Portions of the bond payments CHE reported as match may not be allowable because they were not used to meet the needs identified in the state plan, included unallowable costs (such as interest), or benefitted other programs.

Because the applicable federal regulations are not clear and have been interpreted differently by federal program and audit officials, CHE personnel should work with the federal audit and program officials to resolve this issue for periods prior to fiscal year 1991-92. Beginning in fiscal year 1991-92, the program no longer requires matching funds.

Recommendation #1

We recommend the Commissioner of Higher Education work with federal officials to determine the allowabillty of vocational-technical center bond payments as matching funds for federal Perkins' projects.

Subrecipient Monitoring

Federal law requires CHE to perform program reviews of 20 percent of the Perkins grant (CFDA #84.048, #84.049, and #84.174) subrecipients on an annual basis. In addition, OMB Circular A-128 requires recipients of federal financial assistance, such as CHE, that provide $25,000 or more to a single subrecipient, to determine whether subrecipients met the audit requirements of the circular and the program. OMB Circular A-128 also requires CHE to resolve any issues noted at the subrecipient level, whether through audit reports or program reviews, within six months.

In the prior CHE audit, we reported CHE did not have procedures to adequately monitor subrecipients' compliance with federal audit requirements and to ensure subrecipients correct deficiencies noted during program reviews. CHE partially implemented our recommendation to establish a system to monitor Perkins subrecipients for compliance with federal audit requirements and establish procedures to resolve deficiencies noted during its program reviews. CHE staff now obtain audit reports of post-secondary subrecipients and review them for issues of noncompliance.

When CHE staff identified noncompliance during the fiscal year 1989-90 and 1990-91 post-secondary reviews, they notified the subrecipient and usually requested corrective action. However, the issues CHE identified were not always resolved until CHE staff performed a follow-up program review one year later. CHE personnel stated they did not realize OMB Circular A-128 applied to program reviews.

CHE personnel reviewed the Montana Single Audit Report for issues affecting the Perkins grants at state post-secondary subrecipients, but not to determine if there were such issues at OPI. CHE staff said they thought our office would notify them if there were issues affecting the Perkins grants at OPI. Since CHE contracted with OPI to administer over 55 percent of its Perkins funds during the audit period, it should have procedures to ensure OPI administered the funds in accordance with federal regulations.

Because CHE does not comply with these federal regulations, it may be inappropriately disbursing federal funds to subrecipients. CHE should review the appropriate Single Audit Report for federal issues relating to each of its state subrecipients receiving $25,000 or more and establish procedures to ensure the issues are resolved within six months.

Recommendation #2

We recommend the Commissioner of Higher Education:

A. Establish procedures to ensure issues identified during its program reviews of Perkins grant sub-recipients are resolved within six months.

B. Establish a system to ensure Perkins grant sub-recipients comply with federal audit requirements.

Unsupported Charges

Salaries and Benefits

Federal regulations require grant recipients to support the salaries and benefits of employees chargeable to more than one program with appropriate time sheets or time and effort certifications. The method used to allocate salaries and benefits should produce a fair distribution of time and effort between the programs served.

We reviewed the payroll records for those employees whose salaries and benefits were charged to the Perkins grant (CFDA #84.048) during the audit period. CHE charges the Perkins grant for the entire salary and benefits of a CHE employee who performs duties related to other state vocational-technical education functions in addition to those performed for the Perkins grant. CHE also prorates the salaries and benefits for two additional employees at 35 percent and 65 percent to the Perkins grant, respectively.

The actual time these employees spend performing grant related duties is not documented on time sheets or through time and effort certifications. Therefore, the payroll charges are not supported by the actual amount of time each individual spent on each grant. Based on our review of the payroll records and discussions with agency personnel, we determined the percentage allocations used in the payroll records do not provide a fair

distribution of time and effort for employees who have state and federal duties. As a result, we question salaries and benefits of $46,539 and $53,089 charged to the federal share of the Perkins grant during fiscal years 1989-90 and 1990-91, respectively, for the three employees who worked on the grant part time.

Agency personnel allocate salaries and benefits based upon the ratio of federal and General Fund moneys the legislature appropriated for each position. Agency personnel stated the budget allocations set by the legislature did not correspond to the budget allocations proposed by CHE. They also indicated CHE personnel established their budget allocations based upon their estimate of the actual time spent on the grant. CHE employees should allocate time spent by grant on time sheets or prepare time and effort certifications to support salaries and benefits charged to federal programs. Such documentation would also provide a basis for proposing appropriate budget allocations between federal and state funds.

State Vocational-Technical Education Program

Federal regulations require direct charges to a federal grant be specifically identifiable to the grant to be allowable. We found CHE charged the Perkins grant for state vocational education expenditures which are not specifically identifiable to the Perkins grant. Although it was not practical to determine the extent of such expenditures, the following paragraph describes the charges questioned during the audit.

We tested a sample of 31 expenditure transactions charged to the Perkins grants for allowability. One transaction charged a month of long distance phone calls made by an employee working in the state's vocational-technical education program to the grant. The purpose of the long distance phone activity is not documented. Because there is no supporting documentation to identify the phone calls as an expense incurred specifically for the Perkins grant, we question $42 of long distance phone calls charged to the Perkins grant (CFDA #84.048) for the month tested.

CHE charges all long distance phone calls made for the state vocational-technical education program to the Perkins grant. Agency personnel said General Fund authority was not established for the state vocational-technical education program in

fiscal years 1989-90 and 1990-91, so they charged the program's expenditures against the Perkins grant.

Recommendation #3

We recommend the Commissioner of Higher Education establish procedures to document and charge only allowable costs to the Perkins grant.

Talent Search

Talent Search (CFDA #84.044) is a grant program designed to provide career and financial aid counseling to low-income, physically handicapped, and culturally deprived students. CHE expended $221,486 and $230,341 for the Talent Search grant in fiscal years 1989-90 and 1990-91, respectively. We tested expenditure transactions charged to the Talent Search grant and noted situations where expenditures charged to the grant were not made in accordance with state law or policy. For an expenditure to be an allowable charge to a federal grant, it must be authorized or not prohibited by state law or policy; and be consistent with policies, procedures, and regulations which apply to both federally assisted and state activities. The following two subsections address state compliance issues identified during our testing which affect the allowability of federal charges.

Travel Expenditures

The Talent Search grant incurred travel expenditures for fiscal years 1989-90 and 1990-91 of $24,383 and $27,921, respectively. The Perkins grant incurred travel expenditures of $19,188 and $28,948 for the same fiscal years, respectively. During a review of travel claims processed during the audit period, we identified four claims for meals not allowable under state law. CHE authorized and reimbursed employees $29 for midday and evening meals claimed by employees not in travel status for the time periods required in section 2-18-502, MCA. We question unallowable travel expenditures of $25.50 and $3.50 charged to the Talent Search and Perkins grants, respectively. Based upon discussion with agency personnel, these meals were authorized

and reimbursed as a result of human error. CHE should request reimbursement of these travel expenditures from the employees involved.

Personal Phone Calls

Long distance phone call expenditures for Talent Search administration were $3,365 and $3,865 in fiscal years 1989-90 and 1990-91, respectively. We selected four months between June 1989 and December 1991 and reviewed long distance phone calls made during those months by Talent Search employees. A Talent Search employee made $13 in personal long distance calls on the state phone system during three months of the period tested. State policy requires essential personal long distance calls be either collect, charged to a third-party nonstate number, or charged to a personal credit card. The Talent Search employee was aware of state policy regarding personal phone use and stated the calls were an error in professional judgement. Because the employee reimbursed the program for the cost of the personal calls, we do not question any costs.

Recommendation #4

We recommend the Commissioner of Higher Education establish procedures to ensure employees comply with state travel and telephone use laws and policies.

General Fund Reversion

Effective July 1, 1991, section 17-7-304, MCA, allows the university system to retain excess appropriation authority. The Board of Regents may distribute these funds to the university units for equipment and fixed asset purchases or maintenance expenditures. The change in section 17-7-304, MCA, applies to reversions due from fiscal year 1990-91. Prior to this change, the university system's unspent appropriation authority became an obligation to the General Fund at the end of the fiscal year for which it was appropriated. The university system had an additional year to charge prior year adjustments against this unspent appropriation authority. Any excess authority was

payable to the General Fund by the end of the second fiscal year.

CHE calculated excess appropriation authority for the university system of $24,442 for fiscal year 1989-90. In July 1991, CHE placed these funds in a Special Revenue Fund held by the Board of Regents, as described in section 17-7-304, MCA. Agency personnel stated the authority was not reverted to the General Fund because they believe the Legislature intended the change apply to reversions occurring in fiscal year 1990-91.

The fiscal year 1989-90 excess appropriations are subject to the reversion language in effect at fiscal year-end 1990. The obligation to revert the excess appropriation authority for fiscal year 1989-90 to the General Fund existed before the effective date of the changes made to section 17-7-304, MCA. CHE should revert $24,442 to the General Fund as required by section 17-7-304, MCA.

Recommendation #5

We recommend the Board of Regents and Commissioner of Higher Education revert $24,442 to the General Fund.

Independent Auditor's Report & Agency Financial Schedules

Summary of Independent Auditor's Report

Summary of Independent Auditor's Report

The financial schedules were prepared from the Statewide Budgeting and Accounting System (SBAS) without adjustment. The independent auditor's report issued on the financial schedules in this report is intended to convey the degree of reliance the reader can place on the amounts presented.

We issued an unqualified opinion on the financial schedules for each of the two fiscal years ended June 30, 1990 and 1991. This means the reader may rely on the fairness of the financial schedules presented when analyzing the financial activity of the Board of Regents and Commissioner of Higher Education.

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INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee
of the Montana State Legislature:

We have audited the accompanying financial schedules of the Board of Regents and Commissioner of Higher Education for each of the two fiscal years ended June 30, 1990 and 1991, as shown on pages 18 through 27. The information contained in these financial schedules is the responsibility of the Board of Regents' and Commissioner of Higher Education's management. Our responsibility is to express an opinion on these financial schedules based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial schedules are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial schedules. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial schedule presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in note 1, the financial schedules are presented on a comprehensive basis of accounting other than generally accepted accounting principles. The schedules are not intended to be a complete presentation and disclosure of the agency's assets, liabilities, and cash flows.

In our opinion, the financial schedules referred to above present fairly, in all material respects, the results of operations and changes in fund balances of the Board of Regents and Commissioner of Higher Education for the two fiscal years ended June 30, 1990 and 1991 in conformity with the basis of accounting described in note 1.

Respectfully submitted,

James Gillett

James Gillett, CPA
Deputy Legislative Auditor

January 29, 1992

BOARD OF REGENTS AND COMMISSIONER OF HIGHER EDUCATION
SCHEDULE OF CHANGES IN FUND BALANCES
FOR THE TWO FISCAL YEARS ENDED JUNE 30, 1991

	General Fund	Special Revenue Funds	Enterprise Funds
FUND BALANCE: July 1, 1989	$ 0	$ 2,150,326	$ 2,275,998
ADDITIONS			
Fiscal Year 1989-90			
Support from State of Montana	102,785,021[1]		
Budgeted Revenue & Transfers In		8,291,940	9,984,190
Cash Transfers In		13,740,178	
Prior Year Revenue Adjustments		142,610	
Prior Year Transfers In Adjustments		(39,487)	
Fiscal Year 1990-91			
Support From State of Montana	111,944,906[1]		
Budgeted Revenue & Transfers In		7,838,631	11,609,152
Nonbudgeted Revenue & Transfers In		24,442	
Cash Transfers In		12,512,888	
Total Additions	214,729,927	42,511,202	21,593,342
REDUCTIONS			
Fiscal Year 1989-90			
Budgeted Expenditures & Transfers Out	103,494,331[1]	21,674,347	10,352,166
Prior Year Transfers Out Adjustments	(706,672)		
Nonbudgeted Expenditures & Transfers Out			12,960
Prior Year Expenditure Adjustments	(2,638)	(10,996)	3,960
Fiscal Year 1990-91			
Budgeted Expenditures & Transfers Out	111,956,176[1]	20,898,797	10,981,640
Nonbudgeted Prior Year Expenditure Adjustments		968,058[2]	
Nonbudgeted Expenditures & Transfers Out			361,575
Prior Year Expenditure Adjustments	(11,270)	(41,904)	45
Total Reductions	214,729,927	43,488,302	21,712,346
FUND BALANCE: June 30, 1991	$ 0	$ 1,173,226	$ 2,156,994

[1] See note 5.
[2] See note 10.

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules on pages 22 through 27.

BOARD OF REGENTS AND COMMISSIONER OF HIGHER EDUCATION
SCHEDULE OF BUDGETED REVENUE AND TRANSFERS IN - ESTIMATE AND ACTUAL
FOR THE TWO FISCAL YEARS ENDED JUNE 30, 1991

	Taxes[1]	Charges for Services	Investment Earnings	Federal Indirect Cost Recoveries	Miscellaneous	Grants, Contracts, Donations	Other Financing Sources	Federal[4]	Contributions and Premiums	Total
Fiscal Year 1990-91										
SPECIAL REVENUE FUND										
Estimated Revenue	$796,000	$1,073,842	$244,127	$12,703	$12,000	$ 37,790	$ 22,602	$10,127,974[2]		$12,327,038
Actual Revenue	870,302	1,123,308	229,383	9,681	7,850	50,219	22,602	5,525,286		7,838,631
Collections Over (Under) Estimate	$ 74,302	$ 49,466	$(14,744)	$(3,022)	$(4,150)	$ 12,429	$ 0	$(4,602,688)		$(4,488,407)
ENTERPRISE FUNDS										
Estimated Revenue			$300,000						$11,200,000	$11,500,000
Actual Revenue			272,384						11,336,768	11,609,152
Collections Over (Under) Estimate			$(27,616)						$ 136,768	$ 109,152
Fiscal Year 1989-90										
SPECIAL REVENUE FUNDS										
Estimated Revenue	$787,000	$915,696	$273,831	$12,703		$253,300[3]	$ 581,848[3]	$ 6,152,828[2]		$ 8,977,206
Actual Revenue	863,590	910,791	206,062	12,703		215,510	480,749	5,602,535		8,291,940
Collections Over (Under) Estimate	$ 76,590	$ (4,905)	$(67,769)	$ 0		$(37,790)	$(101,099)	$ (550,293)		$ (685,266)
ENTERPRISE FUNDS										
Estimated Revenue			$350,000						$10,000,000	$10,350,000
Actual Revenue			310,304						9,673,886	9,984,190
Collections Over (Under) Estimate			$(39,696)						$ (326,114)	$ (365,810)

[1] See note 6.
[2] See note 8.
[3] See note 12.
[4] See note 7.

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules on pages 22 through 27.

BOARD OF REGENTS AND COMMISSIONER OF HIGHER EDUCATION
SCHEDULE OF BUDGETED PROGRAM EXPENDITURES AND TRANSFERS OUT BY OBJECT AND FUND
BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 1991

	Administration	Student Assistance	Eisenhower Mathematics & Sci Ed Act	Community College Assistance	Montana University System Group Insurance[3]	Talent Search	Vo-Tech Appropriation Distribution
PERSONAL SERVICES							
Salaries	$450,274				$ 74,457	$181,772	
Other Compensation	1,100					150	
Employee Benefits	83,348				16,901	45,055	
Total	534,722				91,358	226,977	
OPERATING EXPENSES							
Other Services	69,827				661,519	8,454	
Supplies & Materials	19,065				2,273	7,251	
Communications	31,075				5,534	10,452	
Travel	25,846		$ 1,260		7,413	27,921	
Rent	77,624				581	257	
Utilities	12,211						
Repair & Maintenance	31,216				118	117	
Other Expenses	15,429		140		293,995	28,201	
Total	282,293		1,400		971,433	82,653	
EQUIPMENT AND INTANGIBLE ASSETS							
Equipment	2,986				5,930	6,124	
Intangible Assets			180			486	
Total	2,986		180		5,930	6,610	
LOCAL ASSISTANCE							
From State Sources		$ 68,400		$3,182,291[1]			
Total		68,400		3,182,291			
GRANTS							
From State Sources		4,545,276					
From Federal Sources		211,463	166,688				$ 806,970
Total		4,756,739	166,688				806,970
BENEFITS & CLAIMS							
To Individuals					8,201		
Insurance Payments					9,904,718		
Total					9,912,919		
TRANSFERS							
Accounting Entity Transfers							8,331,707[1]
Total							8,331,707
DEBT SERVICE							
Leases							
Total							
TOTAL PROGRAM EXPENDITURES	$820,001	$4,825,139	$168,268	$3,182,291	$10,981,640	$316,240	$9,138,677
GENERAL FUND							
Budgeted	$846,080	$4,739,190		$3,182,291			$7,528,905
Actual	820,001	4,613,676		3,182,291			7,528,905
Unspent Budget Authority	$ 26,079	$ 125,514		$ 0			$ 0
SPECIAL REVENUE FUND							
Budgeted		$ 293,040	$171,249			$320,599	$1,610,276
Actual		211,463	168,268			316,240	1,609,772
Unspent Budget Authority		$ 81,577	$ 2,981			$ 4,359	$ 504
ENTERPRISE FUNDS							
Budgeted					$11,890,477		
Actual					10,981,640		
Unspent Budget Authority					$ 908,837		

	Carl Perkins Administration	Appropriation Distribution	Guaranteed Student Loan Program	Board of Regents Administration[2]	Board of Regents Bond Payments[2]	Total
PERSONAL SERVICES						
Salaries	$ 167,087		$ 602,447			$ 1,476,037
Other Compensation			75	$14,575		15,900
Employee Benefits	35,074		153,846			334,224
Total	202,161		756,368	14,575		1,826,161
OPERATING EXPENSES						
Other Services	26,645		479,561	45,070		1,291,076
Supplies & Materials	11,971		17,688	1,627		59,875
Communications	9,981		82,499	3,291		142,832
Travel	28,948		40,483	20,640		152,511
Rent	1,963		47,773	252		128,450
Utilities			4,807			17,018
Repair & Maintenance	1,537		57,538			90,526
Other Expenses	3,335		21,108	438		362,646
Total	84,380		751,457	71,318		2,244,934
EQUIPMENT AND INTANGIBLE ASSETS						
Equipment	2,043		29,985			47,068
Intangible Assets			38,528			39,194
Total	2,043		68,513			86,262
LOCAL ASSISTANCE						
From State Sources						3,250,691
Total						3,250,691
GRANTS						
From State Sources						4,545,276
From Federal Sources	978,231					2,163,352
Total	978,231					6,708,628
BENEFITS & CLAIMS						
To Individuals						8,201
Insurance Payments						9,904,718
Total						9,912,919
TRANSFERS						
Accounting Entity Transfers	2,408,550[4]	$108,349,693[1]				119,089,950
Total	2,408,550	108,349,693				119,089,950
DEBT SERVICE						
Leases					$717,068	717,068
Total					717,068	717,068
TOTAL PROGRAM EXPENDITURES	$3,675,365	$108,349,693	$1,576,338	$85,893	$717,068	$143,836,613
GENERAL FUND						
Budgeted	$ 80,637	$ 94,984,773		$29,868	$717,068	$112,108,812
Actual	80,054	94,984,773		29,408	717,068	111,956,176
Unspent Budget Authority	$ 583	$ 0		$ 460	$ 0	$ 152,636
SPECIAL REVENUE FUND						
Budgeted	$4,771,475	$ 13,386,892	$1,688,143	$56,486		$ 22,298,160
Actual	3,595,311	13,364,920	1,576,338	56,485		20,898,797
Unspent Budget Authority	$1,176,164	$ 21,972	$ 111,805	$ 1		$ 1,399,363
ENTERPRISE FUNDS						
Budgeted						$ 11,890,477
Actual						10,981,640
Unspent Budget Authority						$ 908,837

[1] See note 5.
[2] See note 9.
[3] See note 13.
[4] See note 7.

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules on pages 22 through 27.

BOARD OF REGENTS AND COMMISSIONER OF HIGHER EDUCATION
SCHEDULE OF BUDGETED PROGRAM EXPENDITURES AND TRANSFERS OUT BY OBJECT AND FUND
BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 1990

	Administration	Student Assistance	Eisenhower Mathematics & Sci Ed Act	Community College Assistance	Montana University System Group Insurance[4]	Talent Search	Vo-Tech Appropriation Distribution	Carl Perkins Administration	Appropriation Distribution	Guaranteed Student Loan Program	Board of Regents Administration[2]	Board of Regents Bond Payments[2]	Total
PERSONAL SERVICES													
Salaries	$481,862				$ 55,339	$150,633		$ 148,375		$ 407,394	$ 448		$ 1,244,051
Hourly Wages	25												25
Other Compensation	150					100		300			29,700		30,250
Employee Benefits	88,455				12,174	36,834		30,598		96,528	83		264,672
Total	570,492				67,513	187,567		179,273		503,922	30,231		1,538,998
OPERATING EXPENSES													
Other Services	42,098				180,776	4,699		8,725		586,799	45,322		868,419
Supplies & Materials	13,512				1,402	7,677		3,323		24,791	6,353		57,058
Communications	23,723		$ 50		4,436	11,551		7,134		67,179	13,439		127,512
Travel	29,552				4,377	24,383		19,188		36,777	38,880		153,157
Rent	83,204				181	646		2,491		37,969	677		125,168
Utilities	12,203									4,384			16,587
Repair & Maintenance	26,232				58	18				43,966			70,274
Other Expenses	18,676				279,610	26,686		1,542		17,992	665		345,171
Total	249,200		50		470,840	75,660		42,403		819,857	105,336		1,763,346
EQUIPMENT AND INTANGIBLE ASSETS													
Equipment	8,239				834	45		445		72,753			82,316
Intangible Assets	447									1,805			2,252
Total	8,686				834	45		445		74,558			84,568
LOCAL ASSISTANCE													
From State Sources		$ 65,100		$3,203,911[1]									3,269,011
Total		65,100		3,203,911									3,269,011
GRANTS													
From State Sources		4,402,350											4,402,350
From Federal Sources		255,254	171,600				$ 813,123	955,139					2,195,116
Total		4,657,604	171,600				813,123	955,139					6,597,466
BENEFITS & CLAIMS													
Insurance Payments					9,812,979								9,812,979
Total					9,812,979								9,812,979
TRANSFERS													
Accounting Entity Transfers							8,162,567[1]	2,597,502[5]	$100,963,502[1]				111,723,571
Total							8,162,567	2,597,502	100,963,502				111,723,571
DEBT SERVICE													
Leases												$730,905	730,905
Total												730,905	730,905
TOTAL PROGRAM EXPENDITURES	$828,378	$4,722,704	$171,650	$3,203,911	$10,352,166	$263,272	$8,975,690	$3,774,762	$100,963,502	$1,398,337	$135,567	$730,905	$135,520,844
GENERAL FUND													
Budgeted	$844,881	$4,356,774		$3,207,671			$6,694,105	$ 83,689	$ 87,824,033		$ 33,395	$730,905	$103,775,453
Actual	828,378	4,229,746		3,203,911			6,694,105	79,858	87,694,033		33,395	730,905	103,494,331
Unspent Budget Authority	$ 16,503	$ 127,028		$ 3,760			$ 0	$ 3,831	$ 130,000		$ 0	$ 0	$ 281,122
SPECIAL REVENUE FUNDS													
Budgeted		$ 540,433	$183,284			$341,590	$2,275,936	$4,738,626[3]	$ 13,300,184	$1,722,359	$150,000		$ 23,252,412
Actual		492,958	171,650			263,272	2,281,585	3,694,904	13,269,469	1,398,337	102,172		21,674,347
Unspent Budget Authority		$ 47,475	$ 11,634			$ 78,318	$ (5,649)[3]	$1,043,722	$ 30,715	$ 324,022	$ 47,828		$ 1,578,065
ENTERPRISE FUNDS													
Budgeted					$ 10,413,106								$ 10,413,106
Actual					10,352,166								10,352,166
Unspent Budget Authority					$ 60,940								$ 60,940

[1] See note 5.
[2] See note 9.
[3] See note 11.
[4] See note 13.
[5] See note 7.

This schedule is prepared from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules on pages 22 through 27.

1. Summary of Significant Accounting Policies

Basis of Accounting

The Board of Regents (board) and Commissioner of Higher Education (CHE) use the modified accrual basis of accounting, as defined by state accounting policy for their Governmental Funds. In applying the modified accrual basis, the agency records:

> Revenues when it receives cash or when receipts are measurable and available to pay current period liabilities.
>
> Expenditures for valid obligations when the agency incurs the related liability and it is measurable.

The agency uses accrual basis accounting for Proprietary Funds. Under the accrual basis, as defined by state accounting policy, the agency records revenues in the accounting period earned, if measurable; and records expenses in the period incurred, if measurable.

Expenditures and expenses also include entire budgeted service contracts even though the agency received the services in a subsequent fiscal year; goods ordered with a purchase order before fiscal year-end, but not received as of fiscal year-end; and equipment ordered with a purchase order before fiscal year-end.

State accounting policy also requires the agency to record the cost of employees' annual leave and sick leave when used or paid.

Basis of Presentation

The financial schedule format is in accordance with the policy of the Legislative Audit Committee. The financial schedules are prepared from the Statewide Budgeting and Accounting System (SBAS) without adjustment. Accounts are organized in funds according to state law. The agency uses the following funds:

Governmental Funds

General - to account for all financial resources except those required to be accounted for in another fund. This includes funds appropriated for general operations of the agency and distribution to the six university units, the five vocational-technical centers, and three community colleges for their general operations.

Special Revenue Fund - to account for proceeds of specific revenue sources legally restricted to expenditures for specific purposes. The majority of this activity includes mill levy distributions to the six university units and five vocational-technical centers and the activities of the Guaranteed Student Loan Program and other federal programs.

Proprietary Funds

Enterprise Fund - to account for operations (a) financed and operated in a manner similar to private business enterprises, where the Legislature intends that the agency finance or recover costs primarily through user charges; or (b) where the Legislature has decided that periodic determination of revenues earned, expenses incurred or net income is appropriate. The Enterprise Fund at the agency is used to account for operations of the Montana University System's health insurance program.

2. Annual and Sick Leave

Employees at the agency accumulate both annual and sick leave. The agency pays employees for 100 percent of unused annual and 25 percent of unused sick leave credits upon termination. Accumulated unpaid liabilities related to the Governmental Funds for annual and sick leave are not reflected in accompanying financial schedules. In the Proprietary Funds, annual and sick leave are recognized as expenses when the related liability is recorded. The agency absorbs expenditures for termination pay in its annual operational costs. At June 30, 1990 and 1991, the agency had a liability of $151,140 and $181,035 for its Governmental Funds, respectively. The liability recorded in the Proprietary Funds was $10,016 and $14,173 at June 30, 1990 and 1991, respectively.

3. **Pension Plan**

Employees are covered by the Montana Public Employees' Retirement System (PERS), the Teachers' Retirement System (TRS), or Teachers' Insurance and Annuity Association College Retirement Equities Fund (TIAA-CREF). The agency's contributions to PERS, TRS, and TIAA-CREF totalled $84,834 in fiscal year 1989-90 and $99,459 in fiscal year 1990-91.

4. **General Fund Balance**

The General Fund is a statewide fund. Agencies do not have a separate General Fund since their only authority is to pay obligations from the statewide General Fund within their appropriation limits. Thus, on an agency's schedules, the General Fund beginning and ending fund balance will always be zero.

5. **General Fund Appropriations**

House Bill 100, Laws of 1989, appropriated General Fund moneys to CHE for distribution to the six units of the university system, three community colleges and five vocational-technical centers. CHE accounts for this activity in the General Fund as Support from State of Montana, Budgeted Transfers Out to universities and vocational-technical centers, and Budgeted Local Assistance Expenditures to community colleges.

Transfers Out to universities were $87,694,033 and $94,984,773 in fiscal years 1989-90 and 1990-91, respectively. Transfers Out to vocational-technical centers were $6,694,105 in fiscal year 1989-90 and $7,528,905 in fiscal year 1990-91. Budgeted Local Assistance Expenditures to community colleges were $3,203,911 and $3,182,291 in fiscal years 1989-90 and 1990-91, respectively.

6. **Property Taxes**

Section 20-16-202, MCA, levies property tax mills to support, maintain and improve the Montana Vocational-Technical Centers. The counties collect the tax and remit it to the State Treasurer. CHE subsequently distributes these moneys to the five vocational-technical centers for general operations. CHE accounts for this activity in the Special Revenue Fund as Budgeted Taxes Revenue $863,590 and $870,302 in fiscal years 1989-90 and 1990-91, respectively.

7. Carl D. Perkins Federal Funds

The Board of Regents is the sole state recipient of funds under the Carl D. Perkins Federal Vocational Education Act. On behalf of the board, CHE contracts with the Office of Public Instruction (OPI) to provide management of all Perkins grants to secondary schools. CHE transferred $2,597,502 and $2,408,550 in fiscal years 1989-90 and 1990-91, respectively, to OPI to fund primary and secondary school vocational education projects. CHE records funds received from the federal grantor (U.S. Department of Education) as Budgeted Federal Revenues and funds sent to OPI for secondary projects as Budgeted Transfers Out.

8. Carl Perkins Estimated Revenues

The estimated federal revenue shown on the Schedule of Budgeted Revenue and Transfers In - Estimated and Actual includes Perkins grant authority for more than one fiscal year. CHE has 27 months to spend against the Perkins authority granted for a fiscal year. The actual revenue recorded on the schedules includes funds received under current and preceding year grant authority. The estimated federal revenue also includes other federal grant authority.

9. Consolidation of Agencies

Prior to fiscal year 1989-90, the Board of Regents operated as a state agency separate from the Commissioner of Higher Education. House Bill 100, Laws of 1989, appropriated the budget authority for the board as part of the CHE's appropriations. During fiscal years 1989-90 and 1990-91, CHE recorded the board's administration and bond payment activity in separate programs.

10. Litigation

The Montana Guaranteed Student Loan Program (GSLP) received $734,173 during the first six years of operation from the U.S. Department of Education to assist the program in its start-up stages. These funds were restricted in their use and could be recalled by the federal government if the reserve maintained by the program exceeded certain requirements. At the end of February 1988, GSLP returned $493,830 of the original

advance to the U.S. Department of Education and the final $240,343 was returned during November 1988.

The U.S. Department of Education also notified GSLP that the program must reduce its reserves by an additional $968,058. GSLP joined four other states in filing suit in federal district court in Denver to have this action declared invalid. The U.S. Department of Education withheld payments from September 1988 through November 1988 in order to satisfy the spenddown requirements of $968,058 from GSLP. In August 1990, the U.S. Department of Education prevailed in the lawsuit. CHE recorded the $968,058 of withheld payments on the accounting records as a Nonbudgeted Prior Year Expenditure Adjustment in September 1990.

11. Vo-Tech Appropriation Distribution Program Expenditures

The Schedule of Budgeted Program Expenditures by Object and Fund - Budget and Actual for the fiscal year ended June 30, 1990 shows negative unspent budget authority of $5,649 for the Special Revenue Fund portion of the Vo-Tech Appropriation Distribution Program. The Vo-Tech Appropriation Distribution Program expenditures include an expenditure of $12,579 belonging to the Vo-Ed Grant Expenditure Appropriation. The recording specifications on SBAS assign the Vo-Ed Grant Expenditure Appropriation to the Carl Perkins Administration Program.

12. Revenue Sources

CHE received state funding to establish the Education Commission for the 90s and the Tracks grant in fiscal year 1989-90. CHE recorded these revenues as Grants, Contracts, and Donations. In addition, the Education Trust funds previously held by the Department of Commerce were transferred to CHE in the same fiscal year. CHE recorded the Education Trust funds as Other Financing Sources.

13. Montana University System Group Benefits Plan

The Montana University System (MUS) Group Benefits plan was authorized by the Regents to provide medical, dental, and vision insurance coverage to employees of the Montana University System, as well as their dependents, retirees, and COBRA members. Beginning July 1, 1990, the MUS Group Benefits Plan is fully self-insured with a stop loss underwritten by United of Omaha. (The plan is reinsured at 125 percent of expected claims.) United of Omaha is the claims administrator on the plan. Managed Care Montana (Blue Cross/Blue Shield of Montana) has a contract for utilization management. The utilization management program consists of hospital pre-authorization, case management and medical necessity review. Premiums are collected from employees through payroll deductions and recorded in the MUS Group Insurance Enterprise Fund. The incurred but not reported claims are estimated to be $2,000,000 as of June 30, 1991.

The $9,812,979 of Insurance Payments expenditures recorded on the Schedule of Budgeted Program Expenditures and Transfers Out by Object and Fund for the fiscal year ended June 30, 1990 includes the costs incurred by Mutual of Omaha in administering MUS Group Benefits Plan. In fiscal year 1990-91, the Insurance Payments expenditures included only payments for benefits and claims. The fiscal year 1990-91 administrative costs are part of the $661,519 of Other Services expenditures recorded in the schedules.

THE MONTANA UNIVERSITY SYSTEM
33 SOUTH LAST CHANCE GULCH
HELENA, MONTANA 59620-2602
(406) 444-6570

COMMISSIONER OF HIGHER EDUCATION

RECEIVED
APR - 7 1992
LEGISLATIVE AUDITOR

April 3, 1992

Mr. Scott Seacat
Legislative Auditor
State Capitol
Helena, MT. 59620

Dear Mr. Seacat:

Enclosed are the responses to the financial-compliance audit report of the Board of Regents and Commissioner of Higher Education for the two years ended June 30, 1991. As always, the audit was a useful tool in helping us to refine our policies and procedures to ensure compliance with state and federal regulations. Although the Office of the Commissioner of Higher Education is not in complete agreement with the recommendations contained in the report, the discussion and subsequent research is always of benefit.

Sincerely,

Laurie O. Neils

Laurie O. Neils
Director of Budget and Accounting

c: John Hutchinson

enclosure

RECOMMENDATION #1

We recommend the Commissioner of Higher Education work with federal officials to determine the allowability of vocational-technical center bond payments as matching funds for federal Perkins' projects.

AGENCY RESPONSE:

Concur.

The Office of the Commissioner of Higher Education believes that we have already complied with this recommendation. Considerable research was done on this topic before the decision was made that the bond payments could be appropriately used as match. As cited in the audit report, page 33300 of the Federal Register, (Vol. 50. No. 159) states, "Federal expenditures under Title II, Part B of the Act must be matched with non-federal funds spent for the same purposes authorized by Part B of Title II, <u>but the match requirement is aggregate and does not apply on an activity-by-activity-basis</u> (emphasis added). The next page of the same federal register responds in the affirmative to the question, "Can State or local funds used to maintain vocational education programs be used to match Federal expenditures under Part B of Title II of the Act?"

The State Director of Vocational Education will attempt to get a ruling in writing from the Department of Education, Office of Adult and Vocational Education.

RECOMMENDATION #2

We recommend the Commissioner of Higher Education:

A. Establish procedures to ensure that issues identified during program reviews of Perkins grant subrecipients are resolved within six months.

B. Establish a system to ensure Perkins grant subrecipients comply with federal audit requirements.

AGENCY RESPONSE:

A. Partially concur.

The Board of Regents, as sole state agency for the federal Carl Perkins funds, requires subrecipients to comply with OMB Circular A-128. Specifically, all subrecipients who receive more than $25,000 in federal funds during the program year must contract for an audit in compliance with A-128. The Office of the Commissioner of Higher Education (OCHE) reviews these audit reports and immediately works to resolve any major findings, which complies with the six-month requirement of A-128.

Additionally, OCHE conducts annual performance reviews on a minimum of 20% of Perkins grantee agencies in the fall immediately following the end of the program year. Once an issue of significance is discovered, OCHE continues to work with the grantee agency continuously until the issue is resolved. This is almost without exception completed within six months. When a minor issue is discovered, OCHE notifies the recipient of the issue by letter and then follows-up with a repeated performance review the following year. The staff of OCHE believes we are enforcing the letter and spirit of A-128 even more strictly than necessary when we review subrecipients with minor findings again the following year.

The Office of the Commissioner of Higher Education will continue to make every effort to have audit findings resolved within six months. However, even A-128 states that "corrective action should proceed as rapidly as possible".

B. Concur.

The Financial Assistant for Perkins Grants and Vocational Technical Center Administration will review the Montana's Single Audit Report for recommendations relative to any recipients or subrecipients of Carl Perkins funds.

RECOMMENDATION #3

We recommend the Commissioner of Higher Education establish procedures to document and charge only allowable costs to the Perkins grant.

AGENCY RESPONSE:

Concur.

The Office of the Commissioner of Higher Education (OCHE) assumed control of the state's five vocational technical centers and became the sole state agency for the administration of the federal Carl Perkins funds beginning July 1, 1987. When the state legislature transferred these responsibilities to OCHE from the Office of Public Instruction, one program was established. The administration component of this program (excluding the gender equity function) was funded half by state general funds and half by federal funds. Four employees were assigned to this program and their funding split was 50/50 as well. This funding split for expenditures related to both Perkins and Vo-Tech Administration continued to operate out of this one program for two biennia. All employees charged to this program worked exclusively on the cited functions.

Beginning fiscal year 1992, the state legislature split these two functions into two programs. The administration components of the "Carl Perkins Administration" program is funded half by general fund and half by federal and the Vo-Tech Administration program is funded entirely with state general funds. The employees are assigned to the appropriate programs.

The Office of the Commissioner of Higher Education is currently working to design time and effort certification forms to be completed by all employees who are split-funded. This form will be completed by the end of April 1992.

RECOMMENDATION #4

We recommend the Commissioner of Higher Education establish procedures to ensure employees comply with state travel and telephone use laws and policies.

AGENCY RESPONSE:

Concur.

The personnel policies of the Office of the Commissioner of Higher Education address these issues. All employees have been provided with copies of this manual. The telephone usage policy states:

> "The facilities of the state's telecommunication systems are provided for the conduct of state business. In addition to state business, the state's telecommunication systems may be used by employees for local and long distance calls to latch-key children, teachers, doctors, day-care centers and baby sitters, to family members to inform them of unexpected schedule changes, and for other essential personal business. The use of the state's telecommunication systems for essential personal business must be kept to a minimum, and not interfere with the conduct of state business. Essential personal long distance calls must be either collect, charged to a third party non-state number, or charged to a personal credit card."

The Talent Search employee referred to in the report reimbursed the program for the questioned phone calls. It is the policy of the Commissioner that program directors are responsible for the phone calls charged to their programs. The supervisor of the Talent Search Program will conduct periodic reviews to ensure that all long distance calls charged to the program are appropriate.

The travel policies of the Commissioner of Higher Education are set in accordance with 2-18-501 et seq., MCA. All employees are provided with changes to the statute and changes to state policies relating to travel. When an employee completes a travel expense voucher, the supervisor of the employee's program must approve the reimbursement thereby ensuring the appropriateness of the travel. The voucher is then forwarded to the Fiscal Division. The fiscal staff then reviews the voucher prior to payment in order to ascertain that correct amounts are claimed for reimbursement. The Commissioner of Higher Education believes that these procedures are adequate to ensure that most errors are caught prior to issuing a state warrant to the employee. The travel errors cited in the report were a result of human error. Considering the size of the fiscal staff in the Office of the Commissioner of Higher Education, very few errors occur in the reimbursement of travel.

RECOMMENDATION #5

We recommend the Board of Regents and Commissioner of Higher Education revert $24,442 to the General Fund.

AGENCY RESPONSE:

Do not concur.

The Regents' reversion fund was created by Chapter 787, Session Laws of 1991. When introduced as HB454 this bill contained a section stating: "This act is effective July 1, 1991." However, the introduced bill did not yet contain the Regents' reversion fund language. After the Regents' reversion fund was added, a new section was also added that stated: "[The University System reversion section] applies to reversions due from fiscal year 1991." The special effective date for this one section was put in because under the general effective date (July 1, 1991) no money would have gone into the reversion fund until June 30/July 1, 199<u>2</u>. This delay occurs because reversions are determined as of midnight June 30 (the end of the state fiscal year). The special reversion fund effective date was added as a floor amendment and was obviously meant to change the effect of the already existing general effective date. Otherwise, there would have been no point in offering such a amendment. The obvious intent of the special effective date ("applies to reversion due from fiscal year 1991") is to have the reversion fund start at the end of FY91, which is June 30/July 1, 199<u>1</u>. The Auditor's position that the reversion fund does not start until July 1, 199<u>2</u> makes the special effective date a nullity and it would mean the legislature went through the trouble of adding a special floor amendment that had absolutely no effect. Under the Auditor's interpretation both effective date, the original general one, and the special limited one added on the floor, mean exactly the same thing. Such an interpretation violates a basic rule of statutory construction which says that all legislative actions, including amendments, are presumed to be other than redundant and to have some independent effect.

Staff of the Office of the Commissioner of Higher Education worked closely with the sponsor of the legislation which changed the University System's reversion requirements as well as with staff of the Office of the Legislative Auditor. It was the understanding of the OCHE staff that the legislative intent was that the changed section of statute applied to reversions calculated in fiscal year 1991. The sponsor of the legislation has indicated to OCHE staff that he meant for the reversion change to begin immediately.

The University System has traditionally reverted very little general fund. Needs have always exceeded funding, so there was no excess to revert. The change in statute was intended to provide the system with incentive to save funds for longer range needs such as deferred maintenance and the purchase of long-term fixed assets. A mutual trust has to be established between the University System and the Legislature in order for this policy to become a success. The University System needs to trust that the Legislature will not re-appropriate their reversions and the Legislature needs to be able to trust that the University System will spend the reverted funds appropriately. Reverting these funds now, after the first year, would certainly damage the confidence of the University System.

The only institution materially impaired by complying with the audit report recommendation would be Great Falls Vo-Tech who contributed $16,000 into the reversion account at the end of FY91. Great Falls has already spent $16,000 to finish an area of their building.